

LOTTERY MARKETING & INCENTIVE PAY

PROPOSED SCOPE AND OBJECTIVES

JULY 20, 2011



STATE OF WASHINGTON
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMITTEE

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Why a JLARC Study of Lottery Marketing & Incentive Pay?

The 2011-13 Biennial Operating Budget (ESHB 1087) directs JLARC to review the marketing efforts and employee incentive programs at Washington's Lottery. This study follows a recent change in Lottery's primary beneficiary, which changed from school construction to higher education scholarships.

From 2001 to 2009, Lottery Contributions Primarily Went to School Construction

The Legislature created Washington's Lottery in 1982 (Chapter 67.70 RCW). Initially, revenue that did not go towards prize payouts or administrative costs primarily went to the State General Fund. Beginning in July 2001, Initiative 728 redirected this revenue towards K-12 education, including school construction. While the Education Construction Fund has been Lottery's largest beneficiary, some revenue has also gone towards stadium construction debt reduction, economic development programs, and problem gambling prevention. In Fiscal Year 2009, total sales equaled \$488 million, which generated \$102 million for the Education Construction Fund. Starting in July 2009, however, the Legislature redirected revenues in the Education Construction Fund to the State General Fund.

Now Contributions Primarily Go to Higher Education Scholarships

In 2010, the Legislature enacted E2SSB 6409, which designates the Washington Opportunity Pathways Account (WOPA) as the primary beneficiary of lottery revenue. The WOPA is largely dedicated to providing scholarships and financial aid for higher education, as well as contributing to the Early Childhood Education and Assistance Program. The fiscal note accompanying the bill anticipated that the change in primary beneficiaries would increase lottery sales over time.

Lottery Contracts With Vendor for Advertising

Washington's Lottery contracts with a private marketing vendor for advertising production and media buys. In general, these contracts are in place for three years. Lottery's current vendor contract is for approximately \$12 million per year.

Lottery Sales Employees Receive Incentive Pay

The Lottery employs approximately 35 district sales representatives who work with retailers to promote and sell lottery tickets. District sales representatives are eligible for a quarterly bonus based on the degree to which sales exceed a target quota for their respective districts. The sales incentive program is part of the collective bargaining agreement between the state and the Washington Federation of State Employees.

Study Scope

As directed by statute, JLARC will review the marketing and the incentive payment program at Washington's Lottery. JLARC will focus its analysis on the period surrounding the change in beneficiaries from school construction to higher education scholarships. Additionally, JLARC will perform a comparative analysis of the vendor contracting and employee incentive programs of other states.

Study Objectives

This study will address the following four questions:

- 1) To what extent does advertising impact lottery ticket sales?
- 2) To what extent has the change in beneficiaries impacted lottery ticket sales?
- 3) How does Washington's Lottery contract for marketing services, and how do other state lotteries compare?
- 4) What is Lottery's employee incentive payment program, and how do other state lotteries compare?

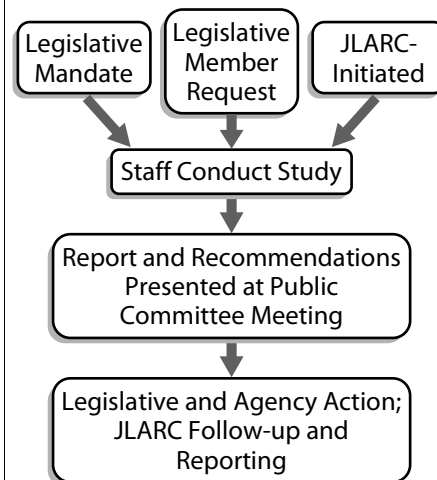
Timeframe for the Study

Staff will present the preliminary report at the January 2012 JLARC meeting and the final report at the May 2012 meeting.

JLARC Staff Contact for the Study

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JLARC Study Process



Criteria for Establishing JLARC Work Program Priorities

- Is study consistent with JLARC mission? Is it mandated?
- Is this an area of significant fiscal or program impact, a major policy issue facing the state, or otherwise of compelling public interest?
- Will there likely be substantive findings and recommendations?
- Is this the best use of JLARC resources? For example:
 - Is JLARC the most appropriate agency to perform the work?
 - Would the study be nonduplicating?
 - Would this study be cost-effective compared to other projects (e.g., larger, more substantive studies take longer and cost more, but might also yield more useful results)?
- Is funding available to carry out the project?